

Message Text

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FM SECSTATE WASHDC

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S E C R E T STATE 048384

EXDIS/STADIS////////////////////////////////////

TODEP 245

POLAD FOR DEPUTY SECRETARY

FOLLOWING REPEAT KINGSTON 0830(DTG O/082200Z MAR 74)

ACTION SECSTATE 08 MAR 74

QTE

S E C R E T KINGSTON 0830

STADIS

EXDIS

EO 11652: GDS

TAGS: PINT, JM

SUBJECT: MANLEY ON BAUXITE: ALLIANCE OF PARTICIPATION

FOR ARA: DEPUTY ASSISTANT SECRETARY SHLAUDEMANN

1. ON MARCH 8 THE PRIME PRIME MINISTER OF JAMAICA, MICHAEL
MANLEY, REVEALED TO U.S. G. OFFICIAL HIS NINE-POINT
PROGRAM RELATING TO THE BAUXITE/ALUMINA INDUSTRY IN
JAMAICA. HE ASKED THAT THIS INFORMATION TO BE RELAYED
TO APPROPRIATE SENIOR OFFICIALS IN THE STATE DEPARTMENT
SO THAT THE DEPARTMENT WOULD UNDERSTAND HIS PHILOSOPHY
SECRET

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AND THE GENERAL OUTLINE OF HOW THE GOVERNMENT OF JAMAICA
EXPECTS TO TALK WITH THE SENIOR REPRESENTATIVES OF THE
COMPANIES ON MARCH 18. THE PM ASKED THAT THE INFORMATION
NOT REPEAT NOT BE REVEALED TO THE COMPANIES. HE CONSIDERS

THIS A PRIVILEGED GOVERNMENT - TO - GOVERNMENT
COMMUNICATION

2. THE PHILOSOPHY ESPOUSED BY THE GOJ, WAS TERMED
BY MANLEY "THE ALLIANCE OF PARTICIPATION" BETWEEN THE
SEPARATE COMPANIES AND THE GOJ. THE GOJ RECOGNIZES
THAT INTERESTS, STRUCTURE AND STYLES ARE
DIFFERENT BUT THE GENERAL PHILOSOPHY OF THE MATTER IS
AN ACROSS THE BOARD ONE.

3. THE GOJ WISHED MANLEY OFFICIALLY INFORMED US, AT
ALL COSTS TO AVOID ANY CONFRONTATION, BUT RATHER TO WORK
IN HARMONY WITH THE COMPANIES SO THAT THE BEST MUTUAL
BENEFIT MIGHT BE OBTAINED FROM THE WASTING RESOURCES OF
BAUXITE WHICH THE GOJ CONSIDERS ITS PATRIMONY

4. IN GENERAL TERMS THE FOLLOWING NINE PRINCIPLES
OUTLINE THE PROGRAM WHICH THE GOVERNMENT WILL REVEAL
TO THE COMPANIES ON MARCH 18.

5. (1) REVENUE: AS TIME GOES ON, REVENUE SHOULD BE
AVAILABLE TO THE GOJ ON A FLEXIBLE AND REASONABLE BASIS,
BASED ON WORLD MARKET VALUES, SUPPLY AND DEMAND
FLUCTUATIONS, AND OTHER RELEVANT CONDITIONS. THERE WOULD
PROBABLY BE NO TIGHTLY-FIXED LONG-TERM RATE, BUT A SOUND
VARIABLE ONE AS TO TAXATION AND ROYALTIES. THIS, IT WAS
EXPLAINED, WOULD GIVE AN ADVANTAGE TO BOTH GOVERNMENT
AND COMPANIES TO ADJUST RATES UP OR DOWN AS WORLD
CONDITIONS CHANGED. THERE SHOULD BE AN EFFORT TO TRY
AND IDENTIFY THE GENUINE ECONOMIC VALUE OF BAXUITE AND
ALUMINA RATHER THAN AS ON A NOTIONAL PRICE BASIS. (2) ALL
INGREDIENTS OF INCOME RESOURCE DERIVED FROM AND
THROUGH THE BAUXITE/ALUMINA INDUSTRY, TO THE EXTENT
REASONABLE POSSIBLE, SHOULD BE BROUGHT TO BEAR IN THE
"ACCOUNTING PROCESS" TO ASSIST IN TERMS OF JAMAICA'S
BALANCE OF PAYMENT NEEDS IN "FULL NET VALUE TERMS."
THE ABOVE TWO ITEMS SHOULD BE AGREED UPON IN PRINCIPLE
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WITHIN 14 DAYS FROM MARCH 18 SO THAT THEY MAY BE
INCLUDED IN THE CONSTRUCTION OF THE FORTHCOMING JAMAICAN
BUDGETARY ANALYSIS (3) UNUSED LAND: THERE SHOULD BE
A REVERSION TO THE GOJ OF THOSE BAUXITE RESERVE LANDS
THAT ARE NOT NOW APPARENTLY NEEDED BY THE BAUXITE/ALUMINA
COMPANIES. IN THIS CONNECTION, ORE NEEDS
WOULD BE COMPUTED ON THE BASIS OF 25 YEARS (THE THEORETICAL
"PLANT LIFE" OF AN ALUMINA FACILITY) TIMES THE
ANNUAL CAPACITY OF EACH FACILITY, SO THAT THERE WILL BE
AMPLE ORE RESERVES AVAILABLE TO EXISTING PLANTS FOR THE
NEXT QUARTER OF A CENTURY, WHETHER THE PLANT IS IN
THE UNITED STATES OF JAMAICA OR IF PRODUCTION CAPACITY
IS EXPANDED, THEN THAT EXPANSION CAPACITY WILL BE

PROVIDED SUFFICIENT ORE RESERVES COMPUTED ON THE BASIS OF INCREMENTS OF 25-YEAR PLANT CAPACITY. (4) RECOVERY OF SURFACE RIGHTS: THE GOJ WISHES TO WORK OUT WITH THE SEPARATE COMPANIES A FAIR PRICE TO PAY FOR RETURN OF SURFACE RIGHTS FOR ANY LAND THAT IS NOT NOW WELL UTILIZED OR WHICH THE COMPANIES DO NOT WANT TO MAINTAIN. IF THE COMPANIES ELECT TO CONTINUE TO USE LANDS IN AGRICULTURE OR OTHERWISE AND A REASONABLE USE IS MADE OF THEM THEY MAY CONTINUE TO DO SO. (5) EXPANSION: IN THE CASE OF EACH COMPANY THE GOJ WILL INVITE EXPANSION GENEROUS TAX INCENTIVES WILL BE PROVIDED ON AN INDIVIDUAL BASIS TO STIMULATE SUCH EXPANSION. (6) PARTICIPATION: EACH COMPANY WILL RECEIVE A SEPARATE PROPOSAL TO PROVIDE FOR A REASONABLE AMOUNT OF MINORITY PARTICIPATION BY THE GOJ (PERHAPS AS LITTLE AS 10 PERCENT) OF EXISTING PLANT FACILITIES. PAYMENT FOR SUCH PARTICIPATION WILL BE IN CASH, PAID OUT AT REASONABLE INCREMENTS AND NOT REPEAT NOT OUT OF "FUTURE EARNINGS". IN THE CASE OF NEW FACILITIES, THE GOJ WILL SEEK TO WORK OUT A SUITABLE JOINT VENTURE OPERATION AGREEABLE TO BOTH PARTIES. (7) IN THE CASE OF KAISER AND REYNOLDS COMPANIES ONLY, THE GOJ DOES NOT WISH TO HAVE RAW BAUXITE EXPORTED MERELY ON THE BASIS OF "FOREIGN OWNERSHIP". BOTH COMPANIES WILL BE INVITED, THEREFORE, TO SET UP ALUMINA PLANTS IN JAMAICA WITH THE GOJ AS A PARTICIPANT. IF THESE PLANTS COULD BE AGREED TO ON A REASONABLE BASIS, AMPLE NEW ORE RESERVES BE AVAILABLE SO AS NOT TO AFFECT EXPORT PRODUCTION FOR PLANTS IN THE U.S.A. IF, HOWEVER, SECRET

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THE COMPANIES ELECT NOT TO ENTER INTO PLANT CONSTRUCTION, OTHER ARRANGEMENTS WOULD BE WORKED OUT FOR THE ACQUISITION BY THE GOJ OF MINING RIGHTS. PAYMENT FOR SUCH ACQUISITIONS WOULD BE PROMPT, EFFECTIVE AND ADEQUATE AND NOT PAID OUT OF FUTURE PROFITS, BUT IN CASH. (8) THE STRUCTURAL VEHICLE THROUGH WHICH JAMAICA WOULD "EXPRESS PARTICIPATION" IN ANY OF THE FOREGOING PARTICIPATORY ELEMENTS WOULD BE THROUGH A LOCAL COMPANY WHICH WOULD HAVE AS WIDE AN AVAILABILITY AS POSSIBLE FOR JAMAICANS TO ACQUIRE SHARES. SUCH SHARES WOULD NOT BE AVAILABLE TO NON-JAMAICANS EVEN BY RESALE. (9) UNRELATED TO ANY OF THE FOREGOING PRINCIPLES AND WHETHER OR NOT THE ABOVE ARE WORKED OUT SATISFACTORILY, THE GOJ UNDERTAKES TO ASSURE THE US GOVERNMENT AMPLE BAUXITE AND ALUMINA FOR ITS STRATEGIC RESERVES OR DEFENSE NEEDS.

COMMENT. THROUGHOUT THE WEEK THERE HAS BEEN CONSIDERABLE ADJUSTMENT AND DIALOGUE ON THESE PRINCIPLES. CERTAIN VERY HARD LINE POSITIONS HAVE NOW BEEN ABANDONED. CHARGE AND VISITING OFFICIAL HAVE STIMULATED MODERATION. IT IS REASONABLE TO ASSUME THAT ALTERATIONS IN THE ABOVE NINE PRINCIPLES MA

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